

Approved For Release |
2009/05/01 : Dept.
CIA-RDP85T00875R00100004
completed.

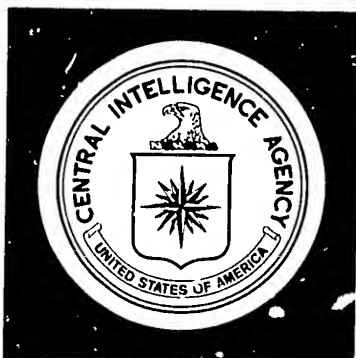
Approved For Release
2009/05/01 :
CIA-RDP85T00875R00100004

CIA O C I W R

25X1

DSB FILE COPY
RETURN TO 1H-1107

Top Secret



CRS/DSB 25X1

Weekly Review

State Dept. review
completed.

DIA review
completed.

25X1

Top Secret
15 March 1974

25X1

Copy No 426

CONTENTS (March 15, 1974)



The WEEKLY REVIEW, issued every Friday morning by the Office of Current Intelligence, reports and analyzes significant developments of the week through noon on Thursday. It frequently includes material coordinated with or prepared by the Office of Economic Research, the Office of Strategic Research, and the Directorate of Science and Technology. Topics requiring more comprehensive treatment and therefore published separately as Special Reports are listed in the contents.

25X1

25X1

25X6

- 4 Arab States: On to Vienna
- 4 The EC Eyes Gold
- 5 West Europe - US: New Tensions

EAST ASIA PACIFIC

- 6 Cambodia: An Imperiled Enclave
- 7 Laos: Political Procrastination
- 8 Nationalist China: Air Force
- 10 South Korea: All's Quiet Now
- 10 Thailand: The Students Back Off
- 11 USSR-Japan: Siberian Development

25X1

25X1

EUROPE

25X6

- 15 Bulgaria Tightens Discipline
- 15 USSR-France
- 16 Communist Nuclear Power
- 17 USSR: Mars Probe
- 18 Portugal: African Policy Furor
- 20 Compromise "a la Belge"

25X1

MIDDLE EAST AFRICA

25X6

- 21 Libya Seeks to Barter Oil
- 22 Oman-Iran: Tighter Bonds
- 23 Iran-Iraq: Cease-fire
- 23 Iraq: Kurdish Autonomy
- 24 South Africa: The Midas Touch
- 25 Ethiopia: Back to Work

WESTERN HEMISPHERE

- 26 Guatemala: Election Aftermath
- 27 Cordoba Province: Peron's Policies
- 28 Venezuela: Orderly Inauguration

25X1

SPECIAL REPORT

(Published separately)

Brazil: Geisel Takes Over

25X1

Page Denied

Next 2 Page(s) In Document Denied

25X1

Arab States: On To Vienna

The meeting of Arab oil ministers in Tripoli adjourned Wednesday evening without making any announcement about the oil embargo or future oil production levels. The Arabs will reconvene on Sunday in Vienna, where the Organization of Petroleum Exporting Countries will be meeting to consider oil pricing policy.

Although the Arab oil nations are maintaining an official silence on the future of the "oil weapon," there are claims, attributed to participants at the meeting, that the oil ministers did, in fact, reach an agreement to lift the embargo and to restore oil production to pre-1973 war levels. These sources said the announcement will be made in Vienna, having been delayed to spare the feelings of the Libyans who favored maintaining the embargo.

At the conclusion of the Tripoli session, however, the conference chairman read a brief communique stating that the meeting was being adjourned until Sunday to give some of the ministers a chance to consult their governments. This may indicate that either new proposals were introduced or that there was a deadlock among the oil ministers.

According to an official Libyan news agency report, the Algerians proposed, as a compromise solution, the lifting of the embargo for a trial period of two months. The embargo would be reimposed presumably if no agreement on the disengagement of forces in the Golan Heights were reached by that time.

25X1

The EC Eyes Gold

Soaring gold prices and the prospect of balance-of-payments deficits resulting from higher oil prices are increasing pressures in Europe for a substantial increase in the official price of gold. The official price has remained at \$42.22 an ounce since February 1973, while the free market price recently hit \$180. Italy and France are pressing for early action by the EC to increase the price of gold for transactions between central banks. West Germany, the Netherlands, and Britain are opposed to such action, hoping that the International Monetary Fund will agree to raise the price of gold later this year.

Italy and France would gain the most proportionately from a price increase. At an official price of \$150 per ounce, for example, their combined foreign reserves would increase by about \$20 billion, or over 130 percent. A strengthened reserve position would benefit Italy particularly, greatly improving its credit-worthiness, now

weakened by a \$6-billion Eurodollar debt; it also would free foreign exchange needed to finance an expected 1974 trade deficit of \$8 billion. Paris favors the appreciation of gold because, in addition to welcoming a sharp rise in the value of foreign reserves, it believes that gold should play an active role in payments among central banks. This change would be facilitated by giving gold a higher official price.

The other three countries reject unilateral EC action in part as an unnecessary slap at the US. Bonn also is concerned about the inflationary impact of increased reserves. The gold question therefore remains under study in the EC monetary committee.

Last week the EC monetary committee reportedly ruled out fixing a new gold price. They are, however, considering a number of proposals to internationalize the problem, using a country's

25X1

[REDACTED]

25X1

gold reserves, for example, as collateral for International Monetary Fund loans. Next month, the committee will meet again to narrow the options.

Differences among the EC members and Germany's strong position within the EC make uni-

lateral action unlikely before the June meeting of the International Monetary Fund in Washington. If the price of gold is not raised at that time, the community will probably boost it unilaterally later in the summer because of the pressure of rising import costs. [REDACTED]

25X1

25X1

West Europe - US: New Tensions

American criticism of the EC Nine's decision last week to pursue a European-Arab dialogue on long-term economic and cultural cooperation has met with understanding in some European official and press circles. The predominant reaction, however, has been surprise and puzzlement over "real" US motives, and worry about the implications for European unity. There are some willing to concede that the US has been frustrated trying to achieve meaningful consultations with the Nine. They nevertheless appear dubious that the extensive prior consultation the US desires on community actions can be accomplished without making a mockery of European efforts at common policy formulation.

Adverse US reactions to the EC-Arab proposals have tended to be countered by European arguments that

- the US knew about the European intention to talk with the Arab states since last October's summit of the Nine in Copenhagen;
- the US was kept informed of the state of the Nine's progress on this matter;
- the Nine had deliberately excluded references to a European role in a Middle East peace settlement and had made an ultimate EC-Arab foreign ministers' meeting conditional on agreements in working-level groups;
- the European effort is as likely to open differences among the Arabs as it is to unify them to resist the US mediating role in the Middle East;
- the dialogue with the Arabs is a long-term process that could bring to the surface

differences among the EC members themselves, and is thus not a real competitive threat to the US;

• France's partners, while seconding EC-Arab cooperation, partly in order not to widen the breach with Paris opened by the Washington Energy Conference, are still eager to participate with the US in the work of the conference-inspired energy coordinating group.

Behind these arguments lies the fear of France's partners that angry exchanges across the Atlantic may be increasingly couched in terms that will eventually force the Europeans to choose between "Europe" and the US. They feel that this "choice" is not only impossible but also obscures the real issue for them—the struggle between the Gaullist conception of a "Europe of Fatherlands" and maintaining, however faintly, momentum toward a supranational Europe. Not many European officials are as outspoken as West German State Secretary Apel, who, in a recent interview, welcomed France's "plain talking," but at the same time called for confronting France's concept of Europe with Germany's desire for a supranational Europe.

Chancellor Brandt has indicated he would welcome an early presidential visit in order to try to overcome US-European differences. The Germans are clearly not hopeful, however, that the French will permit an explicit formula for political consultations—given Paris' line that such commitments would be tantamount to admitting a tenth member to the community table. [REDACTED]

25X1

25X1

25X1

25X1

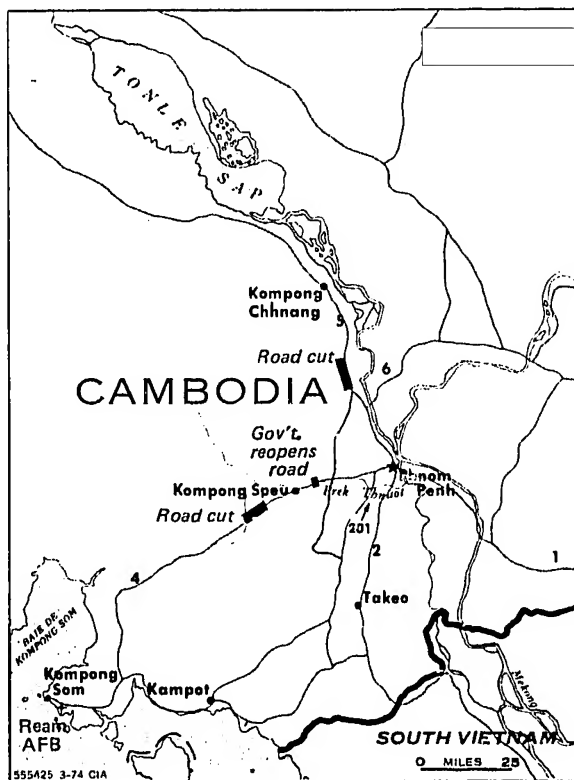
CAMBODIA: AN IMPERILED ENCLAVE

Military activity was centered on Kampot again this week as both sides raised the stakes at that southwestern city. With the continued arrival of reinforcements from Phnom Penh and elsewhere, Cambodian Army strength at Kampot has increased to over 3,000. These troops are being supported by aircraft from the nearby base at Ream and a small flotilla of navy gunboats.

In a significant bid to improve the government's situation at Kampot, the army high command removed the city's inept commander. His replacement wasted little time attempting to expand Kampot's tight defensive perimeter. By mid-week, government troops had made some

gains, but the Communists were still within mortar range of the city itself. Despite shortages of food and water, civilian morale is holding up well.

25X1



25X1

Elsewhere, government units in the Phnom Penh area have reopened Route 4 between the capital and the highway town of Kompong Speu. They inflicted some heavy casualties on the Communists in the process. Cambodian Army troops have also made some progress in clearing Route 1 southwest of Phnom Penh.

Domestic Difficulties

Schools in Phnom Penh, which reopened on March 6 after being closed for almost two months, partially as a security precaution, shut down again early this week. The latest closure

25X1

25X1

resulted from the determination of disgruntled teachers to teach only the first ten days of the month. Leaders of the national teachers' association have vowed to stick to this policy until the Ministry of Education explains more clearly what the government is willing to do to meet their economic demands.

Meanwhile, radical students in Phnom Penh showed signs of stirring up fresh trouble for the government. They reportedly are pressing for a commemorative ceremony on March 17 for student-teacher activists killed a year ago by government security agents. The government has already indicated that such a ceremony will not be allowed because it would probably turn into an antigovernment rally. In addition, the government has vetoed public observances of the fourth anniversary of Sihanouk's ouster on March 18. City officials have been warned, however, that if local disturbances should occur on either date, they should refrain from using firearms to quell the unrest.

25X1

LAOS: POLITICAL PROCRASTINATION

Prime Minister Souvanna has encountered further delays in his efforts to form a new coalition government. Much of the responsibility for the recent loss of momentum in the coalition negotiations rests with the Lao Communist leadership in Sam Neua. Chief Pathet Lao negotiator Phoun Sipraseuth returned to Vientiane on March 9 after nearly two weeks of consultations in Sam Neua, but there are no indications as yet that he brought back any new proposals that might break the stalemate.

Although Phoun is back, there is still no sign of senior Lao Communist official Phoumi Vongvichit. Souvanna has been hoping that Pathet Lao chairman Prince Souphanouvong would soon return Phoun to Vientiane as his plenipotentiary

representative, with the promised list of Communist candidates for the coalition cabinet and its quasi-legislative advisory political council. Meanwhile, the Pathet Lao negotiating delegation in Vientiane, almost certainly taking its cue from Sam Neua, is now demanding more effective implementation of the procedures for neutralizing the twin capitals of Vientiane and Luang Prabang as the price for further progress toward forming the coalition.

The Communists' intransigence has played into the hands of Souvanna's conservative political opponents in the National Assembly. They are now demanding that the King convene a special legislative session to address the constitutional problems raised by Souvanna's plan to form the new government by direct royal investiture. The deputies' chief concern apparently is to protect their own positions by reserving the right to approve Souvanna's—though not the Communists'—appointees to the new government. In any event, the special session may not materialize because the cabinet has advised the King that the session would be unwarranted inasmuch as the assembly formally reconvenes in early May. To make matters more complicated for the Prime Minister, however, there are indications that the King may be backpedaling from his earlier assurances that he would invest the coalition without some form of prior approval by the assembly.

Souvanna's evident discouragement over these events may be tempered somewhat by the return to Vientiane this week of the North Vietnamese ambassador after an effective absence of nearly 10 years. The Prime Minister will probably view this development as a further indication of Hanoi's support for a coalition government and of its satisfaction with the Laos cease-fire. He may also calculate that the ambassador's reappearance will inspire the Pathet Lao to be more flexible in their negotiating demands.

25X1

25X1

25X1

25X1

**Nationalist China
AIR FORCE TO BE MODERNIZED**

25X1

The Nationalists intend to co-produce 100 F-5Es with the Northrop Corporation under a contract signed last year and they are considering co-producing or purchasing another 100 F-5Es.

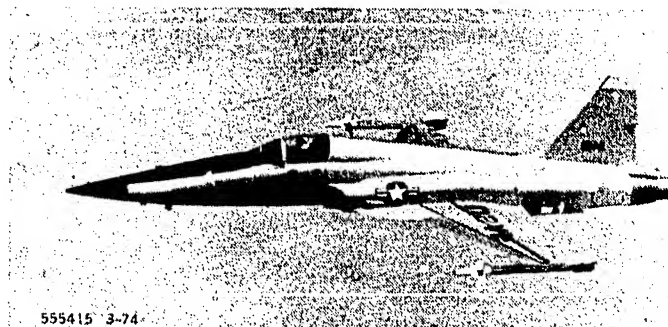
25X1

The Nationalists should be able to produce enough aircraft to equip six squadrons before the end of the decade and, by the early 1980s, they could have an air force equipped entirely with F-5s. Taipei's inventory currently consists of 12 fighter squadrons of about 16 aircraft each—four squadrons of F-104s, five squadrons of F-100s, one squadron of F-86s, and two squadrons of F-5A/Bs.

25X1

The F-5E, with its improved range, speed, payload, and overall performance compared with earlier F-5 versions, is superior to any fighter aircraft that Communist China presently has in its operational inventory.

25X1



25X1

F5 · E

25X1

Page Denied

25X1

SOUTH KOREA: ALL'S QUIET FOR NOW

Government confidence that the tough policies of the past few months would damp domestic opposition was borne out last week as Seoul's major universities reopened without incident. Police and education officials had assured President Pak that potential campus dissidents had been isolated or neutralized, and that other opposition elements within the Christian and intellectual communities had been intimidated.

The regime's heightened anti-Communist campaign, which has focused on Pyongyang's recent sinking of a South Korean fishing boat and other "provocative" activity, has been a major factor in defusing the situation. Many critics of the government now believe that North Korean hostility toward the South is undiminished, and that backing for the President's tough domestic policies is warranted. These critics include some senior military officers who had questioned the need for draconian tactics against domestic dissidents. The same feeling of solidarity in the face of the Northern menace is reportedly evident on some campuses and is being buttressed by the regime's continuing hard line in bilateral negotiations with Pyongyang.

Although Pak's domestic problems have eased, he is hardly out of the woods. Some student protests are still likely this spring and could provide a catalyst for political action by intellectuals and Christians. The regime is alert to prevent disturbances and is quietly arresting students attempting to generate opposition.

Economic Problems Loom

The regime is giving increased attention to the plight of the economically hard-pressed urban workers who have been hardest hit by the doubling of the cost of living in the past year. President Pak has taken a number of measures to meet anticipated demands for higher wages and better working conditions. His willingness to involve himself directly in labor affairs reflects growing concern that the demands of urban workers could easily become linked with calls for political reform. In the past two months, the regime has moved to crush efforts by Christian

social action groups seeking to increase political awareness among workers and thus bring them into the mainstream of opposition to Pak's policies.

25X1

THAILAND: THE STUDENTS BACK OFF

Unlike previous encounters, the Sanya government has gained the upper hand in its latest wrangle with student activists. Former student leader Thirayut Bunmi has called off further protest activities pending results of a government investigation into charges that government officials burned down a village suspected of supporting Communist insurgents.

Thirayut's backpedaling reflects a growing awareness by the students that official and public tolerance of their agitation is wearing thin. At the height of Thirayut's campaign, Prime Minister Sanya publicly expressed his "disappointment" with Thirayut's activities, and the police implied in interviews with Bangkok journalists that he might be a Communist sympathizer. While staying in the background, key generals also let it be known that the army was ready to crack down on unruly students.

Even though the government seems to have cowed student leaders, at least temporarily, it must steer a careful course in handling the village incident. If it tries to whitewash the affair, it risks renewed student agitation; it must also deal carefully with military sensitivities, which have been aroused by student charges of misconduct.

Although the government's investigation is not yet complete, press reports indicate that government investigators have already concluded that the village was indeed a Communist base, and that local defense volunteers were responsible for destroying it. If the government accepts these findings, both sides should be satisfied because the blame would fall on local officials, and the army would be absolved of any wrongdoing.

25X1

25X1

25X1

25X1

USSR-Japan SIBERIAN DEVELOPMENT MOVES FORWARD

The USSR and Japan initialed a document last week that could pave the way for one of their biggest economic deals since the end of the Second World War. If a final agreement is reached, the Japanese will provide a credit of more than \$400 million to help finance a coal mining project in Yakutsk in eastern Siberia. In return, the Japanese will get more than five million tons of coking coal annually for 16 years beginning in 1983.

The terms of the bank loans and the price of the coal are among the important details that still have to be worked out at negotiations that will begin in Tokyo later this month. The Japanese, who found the Soviets more eager to negotiate than before, are confident that a final agreement will soon be reached.

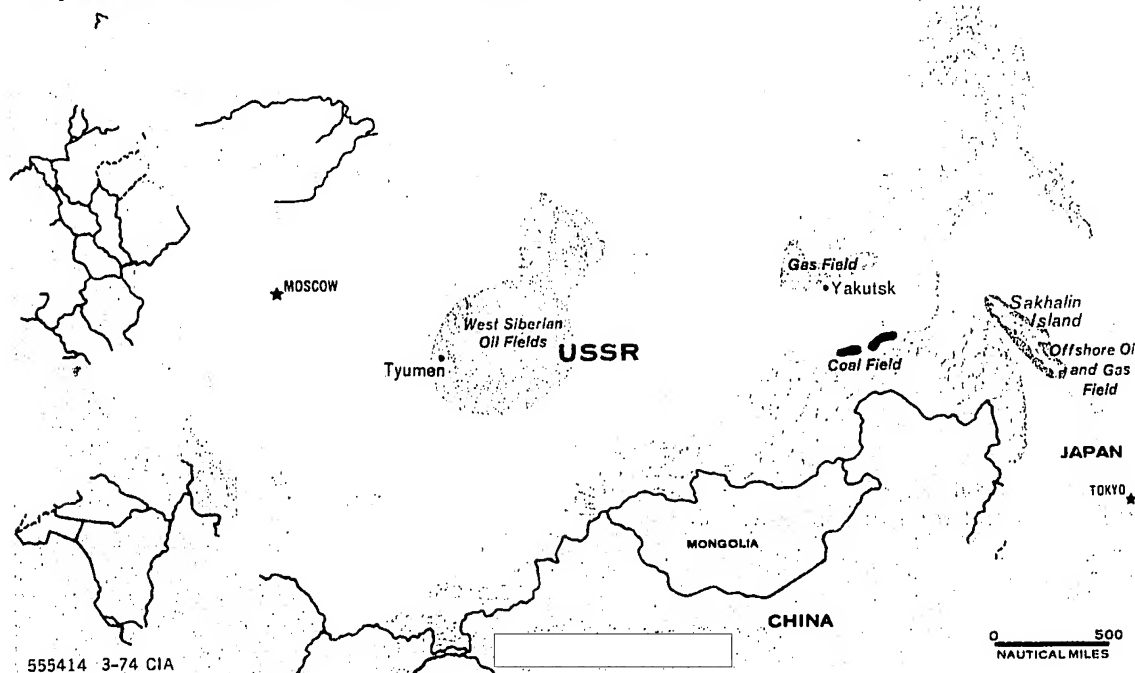
The Yakutsk coal project has been the most promising of the five prospective Siberian projects. The outlook is not so favorable for joint development of Siberian oil, gas, and timber. The project with the next best chance of success involves exploration for Sakhalin oil. Soviet trade and banking officials are expected to go to Tokyo to determine the amount of capital that Japan will provide for offshore exploration. The USSR has been asking for \$200 million in equipment

and services, and the Japanese have been offering substantially less.

The agreement on the Siberian coal project is the first serious indication that the long deadlock over the plans to exploit Siberian resources may be breaking. General Secretary Brezhnev sent Prime Minister Tanaka a message urging joint development in Siberia just before the Japanese delegation arrived in Moscow to negotiate the coal agreement. Soviet press commentary has also chided the Japanese for delaying decisions on Soviet-Japanese economic relations. This commentary strongly suggested that the Soviets were piqued by the fact that Tokyo's relations with Moscow were taking a back seat to its relations with Peking.

Nevertheless, serious obstacles remain. The Japanese need US equipment to undertake the Yakutsk oil and gas project, but US participation is threatened by the prohibition of Export-Import Bank financing for the Soviet Union. The Soviets, for their part, appear to have some trepidation about sharing their most vital resources. Moscow, moreover, believes that Japan may be the country that is hardest hit by the energy crisis and that it will eventually have to come to terms with the Soviets on a long-term basis.

Japanese Interested In Siberian Resources



25X1

25X1

Page Denied

Next 2 Page(s) In Document Denied

25X1

25X1

25X1

25X1

BULGARIA TIGHTENS DISCIPLINE

The Bulgarian party has been predictably prompt in supporting the Soviet idea that detente calls for greater ideological discipline among Moscow's East European allies. Now Sofia is having trouble implementing the Soviet guidelines.

At the Prague conference of propaganda specialists in January, for example, party secretary Konstantin Tellalov strongly endorsed the Soviet call for an "ideological offensive" which, he said, should focus on the weaknesses of the capitalist system. In mid-February, a party plenum exhorted the faithful to guard against the dangers inherent in detente from "both the right and the left," and to understand that "there is not, and can never be, peaceful coexistence in ideology."

Converting such exhortations into action, however, is apparently another matter. In the main speech at the plenum, party secretary Aleksandur Lilov admitted that there is "weakness" within party ranks, and scored those "even in high positions" who hold mistaken views on what detente and cooperation with the West is all about.

Bulgarian propaganda subsequently took a slightly harsher tone toward the West, though it is still less caustic than it was a year ago, and news features are focusing on the ills afflicting capitalist societies. Commentaries on some US policies, however, are characterized more by lack of balance than by outright attacks on US actions. Additionally, Sofia has begun more careful screening of applicants for foreign travel, in keeping with Lilov's call to mobilize Bulgarians as traveling salesman for socialism. There are, however, no indications that prospective travelers are receiving any guidance on how to propagandize socialist achievements abroad. On a personal level, the drive has moved some Bulgarians to reduce their contacts with US Embassy officials.

A national party conference is scheduled for later this month, ostensibly to review progress since the party congress and to discuss material and cultural standards. The Bulgarian leaders, in hopes of ending the current indecision among

party officials at all levels, may use the conference as a forum in which to spell out the details and implications of the drive for greater ideological discipline.

25X1

USSR-FRANCE

Soviet-French relations remain ruffled, President Pompidou's 24-hour visit to the USSR notwithstanding. Both Pompidou and Brezhnev lauded the exchange of views, but the absence of the usual communique and the description of the talks as "frank" and "realistic" suggest that significant differences remain.

The European security talks at Geneva figured prominently among the wide variety of international and bilateral topics discussed. Pompidou agreed with Brezhnev that the conference be concluded rapidly, but refused to endorse a summit-level finale unless it was justified by prior progress. Although the Soviets had received forewarning of Pompidou's views during Gromyko's visit to France last month, Pompidou's position is still a painful rebuff to Brezhnev who has put great personal store in the conference and in a grande finale for it. As for the Middle East problem, Pompidou is said to have merely "taken note" of Brezhnev's hints that France should in some way associate itself with a peace settlement.

25X1



Brezhnev and Pompidou

25X1

25X1

COMMUNIST NUCLEAR POWER

The Soviet nuclear power program, lagging far behind the US effort, is finally beginning to get off the ground. Although nuclear power produces only a minute portion of electric power in the USSR, its share is growing rapidly as the result of a sizable construction program now under way.

The first 440 megawatt reactor at the Kola nuclear power plant on the Murmansk Peninsula went into operation last year, bringing the total capacity of Soviet nuclear power plants to 2,400 megawatts—about 10 percent of US capacity. Soviet nuclear power capacity should double this year with the addition of a second 440 megawatt unit at the Kola plant and the planned start-up of two 1,000 megawatt units at the Leningrad nuclear power plant.

Moscow is concentrating its nuclear power plants in the European USSR, where 80 percent of Soviet electric power is consumed. This will reduce the need to transport fuel from Siberia for conventional electric power generation and relieve the pressure to develop the capability of transmitting Siberian power to the European USSR.

Each 1,000 megawatts of nuclear capacity in the European USSR will reduce the fuel needed from the east by the equivalent of 2 million tons of coal per year.

The USSR is also assisting Eastern Europe in nuclear power plant construction. Nuclear capacity in Eastern Europe, however, will remain negligible for some time.

- A 70 megawatt nuclear power plant built with Soviet help has been in operation in East Germany since 1966, and a Soviet 440 megawatt reactor began operation there at the end of 1973.

- Soviet technicians helped complete a 150 megawatt power plant in Czechoslovakia in 1972, and nuclear power plants with Soviet 440 megawatt reactors are under construction in Bulgaria, Czechoslovakia, East Germany, and Hungary.

- Poland and Romania are scheduled to have Soviet 440 megawatt reactors by 1980-1982.

25X1

USSR Nuclear Power					
	<u>1970</u>	<u>1973</u>	<u>1974</u> (Plan)	<u>1975</u> (Plan)	<u>1980</u> (Plan)
Installed nuclear power capacity (MW)	925	2,400	4,864	8,000	30,000
Production of electricity (billion kwh)	3.5	11.7	16.1	25	150
Share of total electricity	0.5	1.3	1.8	2.4	8

25X1

USSR

25X1

MARS PROBE

The Soviets have been unusually frank in disclosing the fate of their latest series of Mars space probes. Mars 6, the last of the four probes to reach Mars, passed the planet on March 12 and released an instrument capsule in an attempt to obtain data and TV pictures from the planet's surface. The instrument capsule transmitted data during its descent but, according to a Tass announcement on March 14, radio contact broke off just before it reached the surface.

Three days earlier, Mars 7 passed the planet and also attempted to land an instrument capsule. According to the Soviets, a malfunction occurred and the capsule flew by the planet instead of descending to the surface.

Last month Mars 4 and 5 arrived, intended to orbit the planet, but Tass reported that only Mars 5 went into orbit. These spacecraft were to photograph Mars and relay data back to earth from the instrument capsules to be released by Mars 6 and 7.

The Tass announcements are terse and do not provide any details concerning the nature of the failures. In recent years Soviet scientists have become increasingly willing to discuss failures in the space program at international conferences, but Tass has rarely admitted such failures.

25X1

25X1

25X1

25X1

PORTUGAL: AFRICAN POLICY FUROR

The internal dispute over Portugal's African policy continues to send shock waves through the Portuguese establishment. A four day military alert, which confined troops to their barracks, was lifted on March 12, but younger officers who agree with General Spinoia on the need for greater autonomy for the overseas territories, are being quietly posted as far away from Lisbon as possible.

The US defense attache reports that a much-decorated colonel who served with distinction under Spinoia in Portuguese Guinea has been reassigned there for a fourth tour. Another Spinoia supporter has been suddenly withdrawn from the Army Staff College and assigned to an obscure post in the northwestern corner of Portugal. He reportedly was the spokesman for a group of officers at the college who refused to

support a plan last December for a government take-over by ultrarightists.

The transfer of those officers, and others like them, suggests that rightists are attempting to undercut Spinoia's support within the military. Once this is achieved, they may feel more secure about disposing of Spinoia himself.

Spinoia is at the center of the controversy because of a book he published last month. It argues that Portugal's current African policy isolates it from the rest of the world, is too expensive, and, as a practical matter, is not working.

His thesis has found considerable support in the officer corps, particularly among the junior officers, who are tired of repeated African tours. Reformist circles also are backing Spinoia, along with pragmatists who are concerned over the large percentage of the national budget that is spent on defense.

Prime Minister Caetano has been trying to appease both sides in the dispute but the prospects for a compromise do not seem good, now that the debate has been made public. A cabinet reshuffle and changes in military commands may be necessary to restore unity within the government.

The reaction from Angola, one of the overseas territories, is mixed. Most civilian and military leaders seem relieved that Spinoia's argument for self-determination has run into trouble. Some officials, concerned about a regression to the Salazar era, say that Portugal's African policy can never be the same now that Spinoia has spoken out. The media in Angola have supported Prime Minister Caetano's handling of the affair, although one editorial criticized the National Assembly for endorsing Caetano's actions without having fully debated the issues.



Spinoia

25X1

25X1

25X1

Page Denied

25X1

COMPROMISE "A LA BELGE"

The Belgian parliamentary elections of March 10 checked and partially reversed trends set during the past two elections. The meteoric rise of the ethnic parties was halted, and the three old-line parties more or less held their own. These results could be interpreted to mean that economic issues have overtaken regionalism as the most important concern in Belgian politics. It is more likely, however, to reflect a general feeling that the time has come to reach a compromise "*a la belge*" on the central problem of regional autonomy, which threatens to tear the country into three insignificant entities.

Ironically, the moderate Social Christians, who had opposed early elections, were the only party to benefit. The Social Christians scored gains in both Flanders and Wallonia for the first time in 16 years and increased their parliamentary lead by 5 seats. Thus strengthened and virtually assured of leadership in the next coalition, the Social Christians are in a good position to dominate the Socialists, in spite of the latter's greater party discipline.

The Socialists, who gambled to gain dominance in a new coalition by bringing down the first Socialist-led government in 15 years, lost two seats, widening the gap between the two major parties to 13.

The linguistic parties, catering to ethnic demands for more rapid and far-reaching regional autonomy, failed to increase their strength. This mediocre showing will decrease their chances of participating in the next government.

The swing back to the old-line parties may represent a vote of confidence for the relatively moderate plans for regionalization embodied in the December 1970 constitutional reforms. The Socialists, who have most to lose from radical decentralization and most to gain from concentration on national social and economic issues, have interpreted the results to mean that regionalization is no longer the cornerstone of Belgian politics.

The three old-line parties successfully dulled the edge of ethnic rivalries by presenting "mod-

ernized" platforms in which they stressed their commitment to increased autonomy for the regions. Unlike previous elections, moreover, preliminary assessments indicate that local issues and personalities had a strong impact on voting patterns. The realization that essentially parochial ethnic parties are less able to cope with the economic and social problems manifestly besetting the country undoubtedly also played a part. In this vein, the looming showdown between the Belgian Government and the multinational oil companies may have influenced voters to opt for the more "national" parties.

The King, after consulting party leaders, will name a *formateur* of a government—probably a Social Christian/Socialist coalition. Although the Liberal votes are needed to produce the two-thirds majority essential for regional reforms, the conservative views of the party are unpopular, especially with the Socialists. The chairman of the Flemish wing of the Social Christians has already announced that his party has "written off" the Liberals as a coalition partner.

The chastened Socialist Party will have less authority to push its economic reforms as a precondition to coalition, and there will be pressure from its left wing to stay out of the new government. However, the left wing has been weakened by Social Christian gains in Wallonia, and many Socialists, disgruntled by the lukewarm response to the left wing's radicalized platform, may favor cutting their losses by staying in the government.

The alternative to a "traditional" coalition would be a grouping of Social Christians, Liberals and ethnic parties. Such a coalition was rejected by the Wallonian wing of the Social Christian Party in January when Leo Tindemans was charged with putting together a makeshift government in order to stave off elections. Unless the Wallonian wing were willing to give ground, another attempt along these lines could exacerbate the differences between the two Social Christian wings and bring on a complete split. In any event, a government comprising such disparate groups would be highly unstable.

25X1

25X1

25X1

LIBYA SEEKS TO BARTER OIL

Libyan Premier Jallud's recent junket to European capitals was motivated largely by commercial considerations. As a result of the nationalization of some foreign oil interests, the government is faced with the task of marketing up to 70 percent of Libyan crude oil output. Moreover, unlike many other major oil producers, Libya continues to show strong interest in barter deals.

In recent months, preliminary agreements have been concluded with France, Italy, and Sweden, and negotiations are in progress with West Germany. In Eastern Europe barter arrangements with Romania and Bulgaria have been renewed and new barter contracts have been signed with Poland, Czechoslovakia, and Hungary.

Libya's strong commitment to the principle of oil barter sales predates the October war. Disillusionment with cash sales stemmed initially from the loss of foreign reserves resulting from the US dollar devaluation. Subsequently, nationalization of the BP/Bunker Hunt oil concessions and the ensuing threat by the former operators to take legal action against the sale of nationalized oil spurred a Libyan search for barter markets. The search accelerated last summer following the Libyan take-over of 51 percent of the assets of the other foreign oil companies operating in Libya. By the time war broke out, Libya had concluded oil barter deals with the USSR,

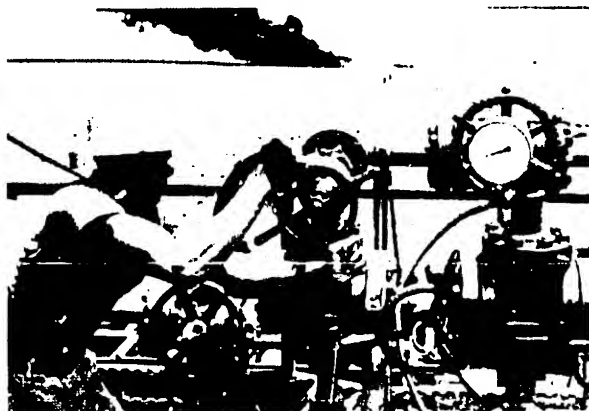
Romania, Bulgaria, Brazil, and a number of developing countries. Libyan representatives also had visited state oil companies in France and Italy seeking to arrange long-term agreements covering the exchange of Libyan oil for capital goods, technical assistance, and arms.

25X1

In view of the general softening of oil prices and Libya's cavalier attitude toward contracts, some of these barter deals are likely to fall through. Libya continues to shop among the developed countries for the goods it wants, and it may renege on some contracts in favor of others for either economic or political reasons. Arrangements with the East European countries—with the possible exception of Romania, which offers advanced oil technology—will be particularly vulnerable because of Libya's low opinion of most East European goods. The developing countries that have almost nothing to offer but political support may fare worst of all, especially if Libya achieves better accommodation with other Arab states.

Italy and France, however, may reap fringe benefits. In the wake of recent barter agreements, affiliates of both the Italian and French state oil firms have secured sizable new oil concessions in Libya. The agreements, which involve joint operation with the Libyan state oil company, will entitle the European firms to about 20 percent of any oil discovered, plus a preferential claim on Libya's share.

25X1



Burning off excess oil

25X1

25X1

25X1

OMAN-IRAN: TIGHTER BONDS

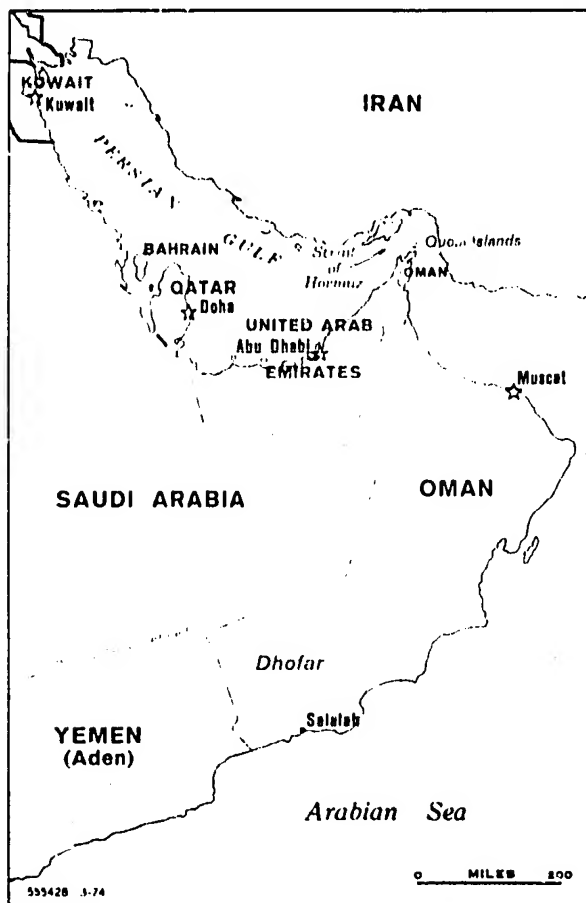
Ties between Muscat and Tehran were strengthened significantly as a result of Sultan Qabus' visit to Iran earlier this month. The Shah gained the first public commitment by another Persian Gulf littoral state to his call for regional security cooperation.

In the final communique, the two countries announced their determination to act jointly to meet any threat to the security of either and to keep the Strait of Hormuz and adjacent seas free for navigation. The statement is a considerable victory for the Shah whose efforts to conclude some type of mutual security arrangement with other gulf leaders have been unsuccessful. Qabus



Sultan Qabus

is well aware that his closer cooperation with the Shah risks alienating his Arab neighbors, especially Saudi Arabia, who are suspicious of Tehran's intentions in the lower gulf. The Sultan has an overriding interest, however, in ensuring that more Iranian help will be available if needed to combat leftist guerrillas in Oman's Dhofar Province. An Iranian force of some 1,400 men is currently in Oman supporting the Sultan's effort.



25X1

25X1

25X1

IRAN-IRAQ: CEASE-FIRE

Fighting on the long-troubled Iran-Iraq border has virtually stopped, following the cease-fire arranged last week by Iraqi Baathist leader Saddam Husayn al-Tikriti and the new Iranian ambassador in Baghdad. Forces of both sides remain concentrated in the area, however, and in the absence of a broader rapprochement, new border skirmishes could occur at any time.

Diplomatic relations between Baghdad and Tehran, re-established in October, have remained intact despite the major border clash a month ago and the serious fighting at scattered locations last week. Representatives of the two countries have maintained a dialogue and were finally able to agree on the wording of a UN Security Council consensus statement, issued in response to Iraq's formal complaint. The two sides may begin negotiations soon on border demarcation and other fundamental problems, but real progress is likely to be slow because of historic enmity and continuing mutual suspicion.

Iran would probably like to keep Iraqi forces occupied on the border, believing that it would then be more difficult for Baghdad to settle its Kurdish problem and concentrate on subversion in the Persian Gulf and within Iran. At the same time, however, the Shah is anxious to establish his good faith and fairness in dealing with Iraq in order to prevent erosion of his carefully nurtured policy of cooperation with the Arabs. Moreover, the restoration of relations between the two neighbors was widely popular among Iranians who see it as opening the way for pilgrimages to the most important Shia shrines, which are in Iraq. These considerations give Tehran a real interest in limiting the consequences of border clashes.

Meanwhile, UN Secretary General Waldheim is moving to implement the February 28 Security Council consensus statement, which called for a report on the border situation by an independent observer. Baghdad has approved Waldheim's nom-

ination of Luis Weckmann, Mexican ambassador to Bonn, as the observer, but Tehran has not yet responded. From 1967-69 Weckmann served as his country's envoy to Israel, and the Iranians may fear he will lean over backwards to prove he is not anti-Arab.

25X1

IRAQ: KURDISH AUTONOMY

The Iraqi Government on March 11 moved to impose its plan for limited self rule on the Kurdish minority in northern Iraq. Baghdad acted amid considerable fanfare, when it became clear that month-long negotiations with Kurdish leaders had broken down. March 11 was the deadline for granting autonomy set by an agreement in 1970 between Baghdad and the Kurdish leaders. The Kurds, led by Mulla Mustafa Barzani, have publicly rejected the government's plan as "inadequate."

The autonomy law provides for limited self-government in the area of northern Iraq having a Kurdish majority—to be determined by a census yet to be taken. The autonomous region, administered from its capital in Irbil, would continue to be an integral part of the Iraqi Republic.

The Kurds objected particularly to articles that limit their judicial independence, and allow the Iraqi president to dissolve the Kurdish legislature, and appoint and dismiss the Kurdish chief executive. They also find unacceptable provisions for merging Kurdish police and security forces into the government's forces and for a national supervisory authority with the power of final decision over the Kurdish government.

The imposition of the autonomy plan prompted a number of serious local clashes.

25X1

25X1

25X1



South African balance of payments this year, despite a tripling of oil import costs.

Both sides are reported to be highly mobilized and ready for combat. The government normally has at least two mountain divisions deployed in the Kurdish area, and it has been developing an airmobile strike force that can be sent in by helicopter. During recent weeks, the government has also moved additional forces, including armor, into the northeast, possibly to try to cut off supply routes from Iran.

The Kurdish rebels, in anticipation of the government move, placed all their forces on alert, called up reserves, deployed units to defend population centers, and occupied strategic mountain locations. They have reportedly begun arming civilians and have evacuated women and children from vulnerable areas. The Kurds have also stored food supplies and called on all Kurdish civil servants to abandon their government posts and join the rebels. Several police units apparently have responded, bringing along ammunition and weapons. Large numbers of students, government workers, and laborers are also reported to be answering the call.

Heavy fighting could break out at any time, but both sides appear to be moving cautiously. Barzani has ordered his forces to take defensive action only, and the government forces appear to be limiting themselves to clearing the Kurds from sensitive areas and to taking over strategic positions.

25X1

SOUTH AFRICA: THE MIDAS TOUCH

Proceeds from gold sales last year reached a record \$2.6 billion, paying half of South Africa's total import bill. The steep rise in international gold prices since mid-January portends a healthier

Last year, South African mines produced 852 metric tons of gold, of which Pretoria marketed about 824 tons at prices averaging \$95-100 an ounce. Foreign reserves, nevertheless, were drawn down 44 percent in the last half of the year to offset an expanding trade deficit and growing movements of capital abroad. In January and February 1974, the steep rise in gold prices to as much as \$184 an ounce reversed the foreign exchange drain without an increase in the volume of gold sales.

South Africa's oil bill in 1974 will probably more than triple to at least \$1 billion. South Africa relies on imports for all of its oil needs, which come to about 350,000 barrels per day, including supplies for re-export. If strictly enforced, the Arab embargo would cut the oil imports by about 50 percent, but Pretoria's readiness to pay the going international prices has minimized the dropoff. Gasoline rationing, which had been scheduled for March 1, has been postponed indefinitely.

The ballooning oil costs on top of expected strong demand for other imports could push total import growth in 1974 substantially beyond last year's 22 percent expansion. All in all, South Africa's total foreign payments will probably approach \$8 billion. Capital movements into the country and earnings from exports other than gold will cover about \$4.5 to \$5.0 billion. Pretoria can make up the difference without drawing on foreign reserves if gold sales from current production bring at least \$115 an ounce.

South African gold production this year is projected at about 820 tons, almost 60 percent of world gold output. Demand for gold will be bolstered by continued uncertainty in money markets, as the energy crisis and international inflation leave their mark.

25X1



25X1

25X1

ETHIOPIA: BACK TO WORK

The ending of a four-day-old general strike on March 10 removed one direct threat to the government, but continuing unrest among other dissatisfied groups will prevent an early return of stability. The attitude of the military remains the critical factor. At present, it is not completely unified in its aims, but a majority of those who participated in the rebellion now appear to be supporting the new government.

The agreement between the government and the Ethiopian Labor Confederation promises important concessions to all the workers' demands, but it will be some time before any tangible benefits reach them. The government agreed in principle to establish a minimum wage higher than the current average wage.

The strike was free of violence; workers heeded their leaders' request to stay off the streets and avoid trouble. Twice during the week, student demonstrations were dispersed by the police. The students are continuing calls for elections and the ouster of Prime Minister Endalkatchew.

Meanwhile, elementary and secondary school teachers are continuing their strike, now in its third week, until the government meets their demands for higher pay and a review of educational policies. The government agreed as part of the settlement with the labor confederation to reach a decision on the teachers' demands before March 19.

Emperor Haile Selassie continues to demonstrate a willingness to make concessions. At a news conference on March 11, he said he would accept the formation of political parties, although he considered a single party system best for Ethiopia. He said the monarchy will remain as a symbol of national unity, but indicated that the emperor's powers would be adapted to the new political realities. Haile Selassie also said promised

constitutional changes would be decided by a special committee being set up by the Prime Minister.

The attitudes of the military rebels are becoming clearer, although their individual identities remain unknown. The leaders, who reportedly call themselves the Ethiopian Officers for Progress and Reform, are said to be satisfied with their success so far. They believe they can work with the present government and can contain the more militant elements within their ranks. The rebels say they will intervene again, however, if the cabinet attempts to thwart the military's demands.

Moderate military leaders probably see some value in Endalkatchew's government. Its members come from the elite group that has traditionally ruled Ethiopia, and therefore may have some chance of overcoming resistance from the die-hard conservatives. At the same time, the new ministers are mostly younger men who support progressive reforms.

Militants within the military, however, view the new cabinet as only a slight improvement over previous ones; they consider the new ministers too closely identified with the conservatives.

The moderates are working to bring the militants under control. A radio broadcast in the name of the armed forces on March 10 disclaimed responsibility for antigovernment leaflets circulating in the capital. The broadcast warned that direct action would be taken against any individual circulating leaflets suggesting the army would support a popular rebellion against the government. Continuing unrest in the air force, especially among some enlisted men, poses the most immediate test of the moderates' ability to control the situation.

25X1

25X1

25X1

25X1

GUATEMALA: ELECTION AFTERMATH

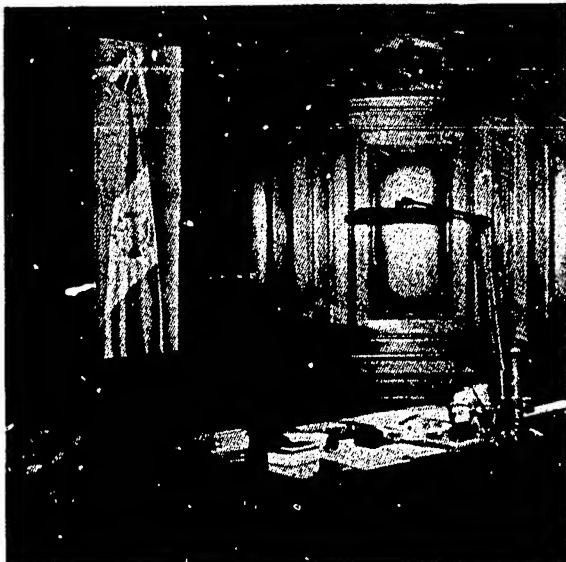
Guatemala remains tense in the aftermath of the disputed presidential election. Police have been able to control demonstrations thus far, but government officials fear that student protests may spread and become more violent.

The assassination of a leftist political activist in the capital on March 11 by gunmen believed to be sponsored by the government is adding to the tension. The victim, a former Communist Party official and, more recently, head of a university legal aid office, [redacted]

25X6
25X6

The murder provoked anger among students, who clashed with police after the victim's funeral the next day. The government is trying to convince the public that the murder was done by leftists to produce a martyr.

Shortly after the assassination, a high-level government official told the US Embassy that agitators intend to arm students with pistols and Molotov cocktails. The official stated that police had ordered to control disturbances with as little use of force as possible, although the government fears the students will now seek conflicts with police, rather than try to avoid violence as they



Presidential office
Object of dispute

had before the killing. He added that assassination or kidnaping attempts might be made against government officials.

Meanwhile, General Efraim Rios Montt, the defeated presidential candidate, is saying publicly that protesting the government fraud is futile. At a news conference on March 13, he said he was retiring to private life, adding that he would not support a popular uprising or a coup in his favor. Privately, however, he may be urging his followers on. If low-key demonstrations can be maintained over an extended period, unrest may grow.

Although Rios has some sympathizers in the lower ranks of the army, he would have only an outside chance of provoking a coup on his behalf. President Arana has the firm backing of the top generals, and remains determined to turn over the presidency to General Kjell Laugerud on July 1.

Arana will call on the military to assume control of the government only if public order deteriorates seriously. He apparently anticipates such an eventuality, however. Arana and his defense minister are making plans to prepare the public for an army take-over. Propaganda emphasizing the seriousness of the situation and the desirability of army intervention to maintain order is being prepared, but held in reserve. If the army does intervene, it would probably install a general of Arana's choosing as a caretaker chief of state for an indefinite period. Arana, would, in effect, retain control.

While tension grew during the week, the administrative details of the election were cleared away in short order. The congressional commission set up to recount the vote announced its findings on March 11 over the protests of nine opposition members who resigned in anticipation of the results. To the surprise of no one, the commission ruled Laugerud the winner. On March 12, the Congress chose Laugerud over Rios, completing the formalities required by the constitution since no candidate was credited with a majority of the votes. [redacted]

25X1
25X1

25X1

25X1

Cordoba Province BATTLEGROUND FOR PERON'S POLICIES

The Peron government continues to have scant success in defusing the inflammatory situation in Cordoba, where intermittent violence extended into a second week, following a police revolt that toppled the leftist administration of the province. The appointment of a rightist federal trustee or interventor to take over the province may provoke increased violence and clashes between left and right. It will certainly evoke strong protests from left-leaning Peronists, and possibly new defections from the President's factionalized movement.

The government interventor, Duilio Brunello, comes from the Ministry of Social Welfare where he was closely associated with Minister Lopez Rega, a confidant of Peron and an arch-enemy of the left. Brunello, a Peronist since 1945 and a relative unknown on the national political scene, is likely to have difficulty restoring order. His links to Lopez Rega, who, along with Vice President Madame Peron, may have had a hand in influencing Peron's decision, will make him anathema to leftists of all stripes. Moreover, Peron's choice may rankle opposition Radical Party leaders who suspect Lopez Rega of playing a major role in the bungled Cordoba affair.

The first reaction to the naming of an interventor was the resignation of Cordoba police



Ex-Governor Obregon Cano

chief Navarro, whose ouster of Governor Obregon Cano set in motion the chain of events that led to federal intervention. Navarro's decision to step down was not unexpected, since Peron apparently bowed to opposition demands that the instigator of the maladroitness insurrection be tried for sedition. It is still unclear, however, whether Peron really intends to sacrifice Navarro or to find some face-saving means to avoid aggravating political passions with a trial. In any case, Navarro achieved what he set out to accomplish—to bring down the leftist-controlled labor and government administrations in Cordoba.

Peron's handling of the Cordoba situation is obviously uppermost in the minds of socialist-oriented Peronist youth, who have issued their harshest criticism of his policies to date. At a rally of almost 50,000 young Peronists commemorating the first anniversary of President Campora's election last March, speakers were critical of the government, and particularly of conservatives closely aligned with Peron. The large turnout shows how unsuccessful Peron has been in ousting the leadership of the "revolutionary tendency" of Peronist youth from the main body of his young leftist supporters and replacing them with leaders more amenable to his control.

Meanwhile, bombings and other violent disturbances have continued to rock the provincial capital as extremists seek to maintain tension in the highly politicized atmosphere of the city. Members of the outlawed Marxist People's Revolutionary Army—Argentina's largest and most active terrorist organization—reportedly have been involved in some of the turbulence.

The prospects for an early end to the violence will depend largely on how the federal administrator chooses to deal with the precarious situation in the province. If he fails to come to grips with the problem through conciliation, the government may be forced to call on the armed forces to restore order. Such action, which would be distasteful to the military, would also increase the strains within Peron's disarranged movement.

25X1

25X1

25X1

VENEZUELA: ORDERLY INAUGURATION

President Carlos Andres Perez was inaugurated this week in ceremonies attended by delegations from over 76 countries, including large representations from the Communist states. Reports that leftist extremists would attempt to mar the orderly transfer of political power from the outgoing Social Christian party to Perez's Democratic Action Party proved unfounded.

In his inaugural address, Perez focused on oil, the issue of most concern to his administration and to Venezuelans. As expected, he emphasized the necessity for an early reversion of oil company concessions to the state but avoided setting a rigid timetable for such action. In sharp contrast to recent statements on the subject by the outgoing Caldera administration, Perez' remarks were non-polemical. Perez promised that reversion would be speeded up, but he cautioned that the "softer the tone of our voice, the more likely will we be heard and understood." Perez

said that he intended to go forward with his plan to appoint a broadly based commission to study possible alternatives for the operation of the industry. In a conciliatory gesture to the opposition parties, Perez added that the Congress would obviously have the last word and could debate his government's proposals; this would amount to a formality, however, because his Democratic Action party has an absolute majority in both houses of Congress.

25X1



President Perez
and his predecessor

Although US oil companies have avoided public comment on the future of their investment in Venezuela, in private statements they have been optimistic that they will be able to secure terms that will afford some protection to their \$1.5-billion investment. They are convinced that foreign firms have a definite role to play in the future of Venezuelan oil. Venezuela, they feel, does not have the ability to manage the entire industry without foreign help. Several companies have reportedly already made tentative approaches to officials of the new administration. A senior official of Exxon's Venezuela subsidiary (Creole Petroleum Company) said recently that he believes that even when nationalization comes, companies will be able to reach agreements with the government.

The oil officials' optimism may well have been increased with the appointment this week of Valentin Hernandez Acosta as petroleum minister in the new administration. Hernandez, Venezuela's ambassador to Austria and to OPEC, is a petroleum engineer-diplomat who has spent his professional career in studies relating to petroleum and international affairs and spent some time working for Creole Petroleum Corporation in the late 1940s.

25X1

25X1

Page Denied

CIA/CSS/CIR/RS

25X1

DSB FILE COPY
RETURN TO 1H-1107

Secret

25X1

DSB



Weekly Review

Special Report

Brazil: Geisel Takes Over

Secret

Nº 425

March 15, 1974

25X1

SECRET

25X1



el Takes Over

Ernesto Geisel is the fourth army general to assume the presidency since the 1964 revolution. His inauguration marks the culmination of a process begun well over a year ago and developed without the air of tension that accompanied all previous changes of government since the revolution. Basic policy directions—top priority to economic development, continued stress on rooting out subversion, and further attention to expanding Brazil's international prestige—are likely to remain unchanged. The new President will have ample opportunity to demonstrate his considerable competence in dealing with a number of economic and, to a lesser extent, political challenges.

Special Report

- 1 -

March 15, 1974

SECRET

SECRET

25X1

Geisel and members of Congress



Background

Geisel was formally confirmed as president on January 15 by a special electoral college composed of the national congress and a number of state legislators. He had earlier been designated by Medici, in consultation with leading members of the military establishment. The smooth transition to Geisel differs markedly from earlier successions since 1964. In 1967, Costa e Silva had maneuvered himself into the presidency by becoming the spokesman for officers who called for harsher

policies than those of Castello Branco, first of the military presidents. When Costa e Silva was incapacitated by a stroke in 1969, wrangling among generals who wanted the presidency led to the installation of Emilio Medici as a compromise candidate.

Medici undoubtedly had all this in mind when he began to plan for the succession, and he laid the groundwork carefully. Several factors enabled him to deal from a position of strength his predecessors did not enjoy. One is the



Castello Branco ('64-67)



Costa e Silva ('67-69)



Medici ('69-74)

Special Report

- 2 -

March 15, 1974

SECRET

SECRET

25X1

performance of his administration. Sustained economic growth and virtual cessation of serious terrorist activity solidified support behind him. His demonstrable success prevented the emergence of a serious challenger who could appeal for support to military officers dissatisfied with the regime's performance. Then there is Medici's choice of Ernesto Geisel, highly regarded by the military establishment as well qualified to administer the next phase of the revolution.

Ernesto Geisel

The presidency of Brazil caps a career that has included a variety of high posts. A retired four-star general, the 65-year-old Geisel most recently headed Petrobras, the national oil enterprise. Under his guidance the company pursued highly aggressive policies to help fulfill the needs of an increasingly oil-thirsty nation. Because Brazil has relatively little oil of its own, the company undertook numerous ventures overseas and, in the process, became Latin America's largest corporation.

Geisel also served as a judge on the Supreme Military Tribunal, which has jurisdiction over cases involving national security matters. In that capacity he delivered tough, well-articulated

opinions. A leader of the movement that ousted left-leaning President Goulart in 1964, Geisel served as chief military advisor in the cabinet of President Castello Branco.

The most frequently heard observation on Geisel's character is that he is taciturn and reserved, and prefers to remain out of the public eye as much as possible. Like his brother Orlando, the powerful outgoing army minister, he is regarded as a man of considerable discipline, who fully supports an authoritarian approach to government. Ironically, there is speculation, fueled largely by hopeful politicians, that Geisel's view of politics is a bit more liberal than that of Medici, who has virtually ignored congress and politicians. Other than naming a trio of legislators to his cabinet, Geisel has given no public indication that this is really so.

It appears that Geisel's cabinet will be hard-working, competent, and entirely trustworthy. None of the ministers has an independent power base, and all are expected to be responsive and subordinate to the President. Geisel is accustomed to running his own show and, unlike his predecessor, will keep a firm grip on the day-to-day formulation and execution of policy. Some observers also feel that Geisel will be more nationalistic



Reis Velloso
Minister of Planning



Shigeaki Ueki
Minister of Mines and Energy

Special Report

- 3 -

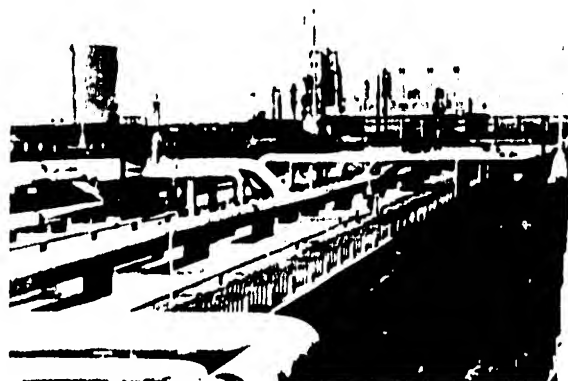
March 15, 1974

SECRET

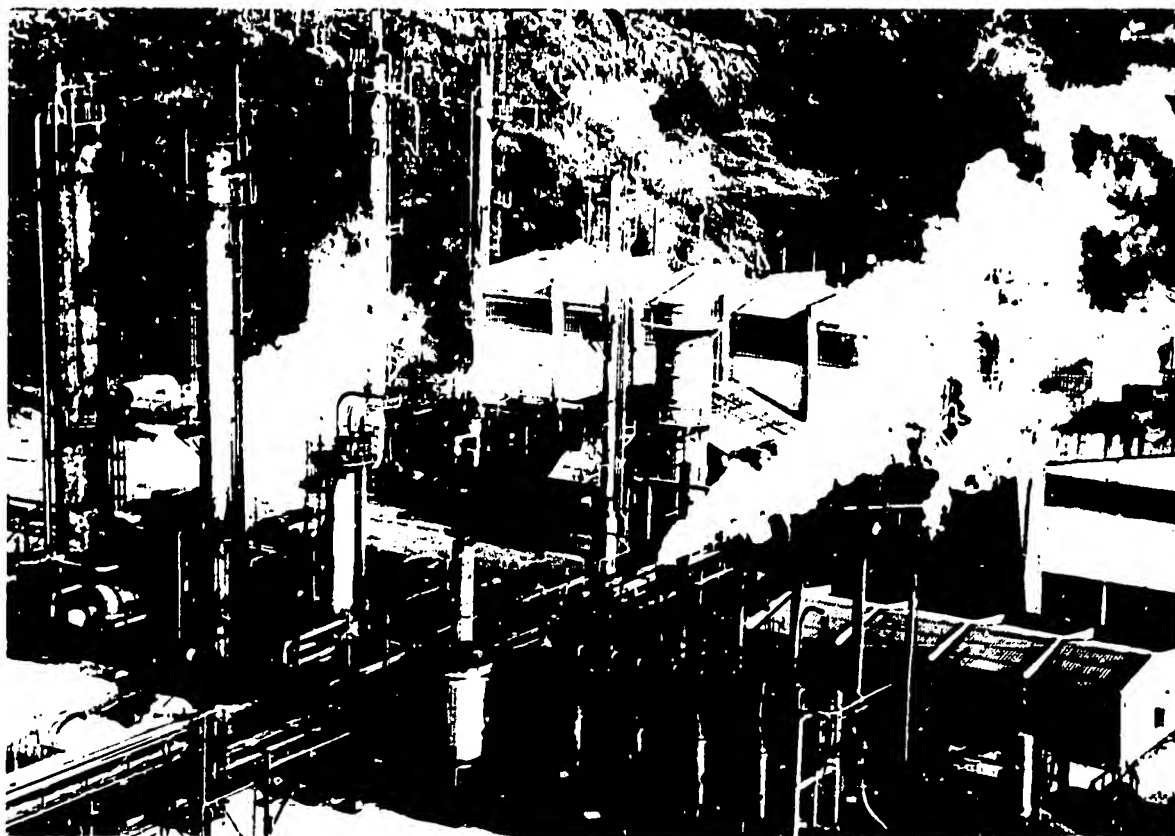
SECRET

25X1

New refinery, the sixth built by Petrobras



One of the largest petrochemical complexes in South America at Santo Andre



Special Report

- 4 -

March 15, 1974

SECRET

SECRET

25X1

than Medici, especially with respect to the terms governing foreign enterprises wishing to operate in the country.

Economic Problems

To implement economic policy, Geisel has chosen as finance minister Mario Henrique Simonsen, a 39-year-old economist who is highly accomplished in academic, business, and government undertakings. Simonsen, like his predecessor, favors the energetic pursuit of growth rather than redistribution of income. Another important member of the economic team is the current planning minister, Reis Velloso, also an able economist, who will remain in that post. Geisel's chief financial adviser at Petrobras, Shigeaki Ueki, will join the cabinet as minister of mines and energy.

Even though Brazil's economy has been booming for several years and is in no apparent danger in the near-term, it is possible to discern areas of concern to the new administration. One is inflation, which the incoming finance minister views as a serious domestic problem. Last year the cost-of-living increase exceeded the regime's stated goal of 12 percent, the first time Medici had failed to hold it to the mark set. Rising import prices, as well as unusually large increases in the money supply, fueled the inflation. Especially hard hit were prices of staples such as rice, beans, beef, and milk. In an effort to stem the upward trend, the government put controls on prices, limited food exports, and imported some basic items that were in particularly short supply. Nonetheless, there have been shortages in food stores. Geisel's selection of several agricultural experts for cabinet posts suggests that he intends to place great emphasis on increasing Brazil's food yield as one way of dealing with shortages and inflation.

Since Brazil must import most of its oil and consumption is constantly rising, the sharply higher price of crude also contributes heavily to inflationary pressures. Already this year there have been two substantial price hikes for gasoline. Inasmuch as the new President has a specialized knowledge of oil and the oil industry, Brazil will certainly continue to improve its techniques in



Mario Simonsen
Minister of Finance

Special Report

- 5 -

March 15, 1974

SECRET

SECRET

25X1

the quest for more petroleum. Innovations may include barter deals exchanging such commodities as sugar, rice, and soybeans for crude. Geisel may even call on foreign oil firms to assist in difficult and expensive exploration within Brazil. In a nation traditionally wary of allowing foreign exploration, Geisel's credential as an oil expert and a strong nationalist would place him in a far better position than any other Brazilian to consider such a move.

The high price of imported oil has caused some decline in Brazil's foreign reserve holdings. The drop prompted the government to abandon a 40-percent deposit requirement that it had imposed on the heavy influx of foreign loans last year as a means of curbing inflationary pressures. Brazil hopes that the relaxation will encourage foreign lenders, who have lately shown some hesitation in dealing with Brazilian enterprises. Since the country's foreign reserves are considerable, no real threat is seen for the short term. Careful management may be needed, however, to avert more serious, long-run consequences.

Brazil's practice of relatively frequent "mini devaluations" of the cruzeiro is apparently being altered and may undergo further changes. There have already been two devaluations this year, both larger than usual. Brazil's exporters have claimed for some time that the cruzeiro is overvalued relative to other world currencies, perhaps by as much as 10 percent, thus reducing their ability to compete. The Geisel administration may further step up the pace and scale of devaluations to assure a competitive edge in trade.

There is also a possibility that the government program of incentives to export industries may be revamped. The US is considering countervailing duties on Brazilian shoes, which have made large inroads in the US market, claiming Brazilian subsidies to the industry give it an unfair advantage. If such a move is carried out, Brasilia fears similar measures against its other manufactured exports. The incoming finance minister reportedly favors less direct subsidies and greater use of exchange rate adjustment to encourage exports.



Problems to be resolved

Foreign Policy

Geisel is not likely to make any significant changes in Brazil's independent but essentially pro-Western foreign policy. Outside Latin America, and especially in international forums, Brasilia will continue to pursue commercial advantages aggressively and seek to play an increasing role in international affairs.

In inter-American conclaves, Brazilian diplomacy is now attracting a bloc of conservative countries that includes Chile, Bolivia, Uruguay, Paraguay, and most of Central America. At the same time, Foreign Ministry officials will remain alert to any attempt by the Peron government in Argentina to isolate Brazil from the Spanish-speaking countries, particularly those in the Andean Pact.

The new foreign minister, Antonio Azeredo da Silveira, is a "Brazil firster," an ardent nationalist. He has served since 1969 as ambassador to Buenos Aires and is considered an expert on River Plate affairs. He does not, however, appear to

Special Report

- 6 -

March 15, 1974

SECRET

SECRET

25X1

have the personal stature to shape bold new policy directions on his own. Brazil already has strong economic ties with neighboring countries and will continue to be sensitive to their fears of its growing power.

(A forthcoming Special Report will be devoted to Brazilian Foreign Policy.)

Political Outlook

The revolution has all but eliminated the old style, free-wheeling politics, which the military judged to be overly cynical and corrupt. Within the narrow confines of the "system" now in effect, however, Geisel will need to make a number of essentially political decisions, some of which could be more than routine.

One decision concerns senatorial and gubernatorial elections scheduled for later this year. Geisel, as his predecessors did, will pass on the acceptability of candidates. He has already begun preliminary groundwork in the state of Rio Grande do Sul, where he recently prevailed on the announced senatorial candidate—whom Geisel deemed a weak entry—to withdraw publicly from the race. The man Geisel apparently favors, however, reportedly may be unwilling to run. Geisel can be expected to continue his close scrutiny of Rio Grande do Sul, both because it is his home state and because the factionalized official party experienced setbacks there in recent local elections.

This year marks the expiration of a ten-year period during which a large number of political

undesirables—largely old style politicians—had their political rights suspended. They thus become eligible, in theory, to re-enter public life. At least one of them, former President Juscelino Kubitschek, remains well-known and popular. Geisel might decide to extend the period of suspension, but he is more likely simply to warn them to remain inconspicuous.

There have been extensive rumors—nourished largely by those who stand to benefit—that Geisel may undertake some sort of general liberalization regarding censorship, relations with the church, and restrictions on political activity. Geisel, however, is well aware that despite promises by his two immediate predecessors to "humanize the revolution" and to "restore full democracy," neither felt confident enough to take steps in this direction. Thus, Geisel, in keeping with his reserved ways, has made no such public promises. He has avoided direct comment on the matter, stressing instead the need for hard work and continued vigilance, especially in the face of continued violence in other countries.

Yet the successes of the Medici regime—which all but eliminated the terrorist threat—have created conditions in which the military establishment might well go along with a very limited liberalization. In fact, Geisel's reputation and the respect in which he is held by civilians and military alike place him in a position from which he could, should he choose, carry out a modest easing in one or more areas.

25X1

SECRET